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FM AMEMBASSY BUCHAREST  
TO RUEHC/SECSTATE WASHDC PRIORITY 8546  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEAUSA/DEPT OF HHS WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 BUCHAREST 000607

SIPDIS  
SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [ELAB](#) [EINV](#) [PGOV](#) [SOCI](#) [AMED](#) [RO](#)

SUBJECT: ROMANIAN HEALTHCARE PART 3: PRIVATE HEALTHCARE STRUGGLES  
TO ESTABLISH A BEACHHEAD

REFS: A) Bucharest 601 B) Bucharest 604

Sensitive but Unclassified; not for Internet distribution.

#### SUMMARY

¶1. (SBU) While the public healthcare system remains the primary source of medical care for the majority of Romanians, it is under-funded, and the unpredictable quality of care has begun to lead some wealthier consumers towards the growing private healthcare sector. Revenues from this private sector are expected to more than double in the next three years, and the many small players in the market are expected to consolidate over the next five to ten years. Prepaid medical service plans are growing in popularity, but they remain unregulated. Private health insurance growth remains sluggish due to unclear legislation, the willingness of many private healthcare users to pay cash, and limited access to facilities that accept private insurance. Nevertheless, while some clinics and healthcare plans may expand more rapidly than others, in general, the use of private insurance, pre-paid medical plans and private healthcare facilities is expected to continue to grow.

¶2. (U) This is the third in a three-part series on the Romanian healthcare sector. Part 1 (reftel A) examined troubles within the public healthcare system, and Part 2 (reftel B) looked at the pharmaceutical market. End Summary.

#### THE GROWTH OF PRIVATE CLINICS

¶3. (SBU) In light of the dilapidated state of Romania's public healthcare system, over 30 private clinics and hospitals have sprung up throughout the country and many more are under construction. The market for private medical services is expected to reach 350 million euros in 2008, and 890 million euros by 2011. Compared to the public healthcare sector, the private sector remains tiny and heavily concentrated in Bucharest. However, according to a July 3 media report, this is projected to change, so that by 2011, up to 70 percent of private healthcare revenues will be generated outside of the capital.

¶4. (SBU) The rapid growth in the private healthcare sector has attracted investment funds and entrepreneurs. In a meeting with EconOffs on July 11, Catalin Popa, Chief Operations Officer of Euroclinic (a well-regarded private facility in Bucharest), predicted that in five to ten years the small private clinics cropping up all over the country will consolidate into four or five national brands. Popa added that safety is the number one reason patients choose his hospital over a public one. (Comment: transparent pricing and the absence of "gratuity payments" - more crudely referred to as bribes - follow closely behind as reasons to use a private clinic. End Comment.) With regard to safety, clients perceive that public health facilities do not maintain a sterile environment, making patients vulnerable to contracting infections.

¶5. (SBU) According to a study recently conducted by the Euroclinic, the demographic profile served by private healthcare facilities is

60 percent female, typically between the ages of 25-40, with salaries of more than 1,000 euros per month. Approximately 30 percent of Euroclinic patients use private insurance. The majority still pay cash for services, as only 4% of Romanians hold private health insurance policies.

#### PRE-PAID PLANS VS. TRADITIONAL PRIVATE INSURANCE

¶6. (SBU) Along with private healthcare services, pre-paid medical service plans have entered the market. These are a sort of quasi-insurance offered through private healthcare clinics and hospitals. Pre-paid plans are growing more rapidly than private health insurance in the current market. Essentially, private healthcare providers market a package of services to employers who are already required to pay for their employees' occupational medical checkups (these mandated checkups determine physical suitability for work). Employers can purchase tax deductible pre-paid medical services plans for their employees, often for less than 20 euros per month. The plans include a package of basic services such as unlimited general practitioner visits and lab tests at the company's facilities, but only very limited specialist care and no catastrophic care. Such plans are ideal for private healthcare providers in that they typically receive payment from patients twice, first during the monthly pre-payment, and again when a patient pays out of pocket to receive specialist or catastrophic care at the company's private clinic. However, while these plans offer great deals for employers and advantages for private healthcare companies, employees are often unaware of the limits of the care offered under the plans. For now, such plans remain entirely unregulated by the Government.

¶7. (SBU) Meanwhile, private insurance is expanding at a much slower rate. The primary reason is that although private insurance is

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legal, its exact role vis-a-vis the public system has not been distinctly defined. For now, public and private health insurance schemes run in parallel. For private health insurance providers this has created uncertainty, while for would-be consumers it has dampened their enthusiasm to enter the market. Euroclinic's Popa foresees that in the next three years, the legislation will be clarified and private insurance will most likely be used as a supplement for an individual's public health insurance coverage.

¶8. (SBU) A second reason for slow growth is that, for current private healthcare users, it is still reasonably inexpensive to pay out-of-pocket for services. This will begin to change, as healthcare costs are expected to rise faster than the rate of inflation. As costs increase, private healthcare users will be forced to carefully evaluate alternatives, which include either returning to the public healthcare system or acquiring sufficient private insurance to cover higher costs. Thirdly, because private healthcare networks are so small, many would-be clients have no access to an in-network clinic near home and thus no real reason to purchase private health insurance.

#### COMMENT

¶9. (SBU) As improvements continue to lag in the public healthcare sector, rising incomes will encourage more and more urban Romanians to seek treatment in private facilities, where most clients still pay out of pocket. As healthcare costs rise faster than inflation, however, Romanians will be forced to seek other payment alternatives. For now, pre-paid plans serve as a distraction from comprehensive private health coverage and as a stop-gap measure compensating for the poor quality of the public system. Increasingly, demand for private insurance will rise in a market frustrated by poor quality care.

¶10. (SBU) A key competitive question for the future is whether the demand for better care will result in an expanded and improved public delivery system that fulfills its stated goal of providing non-discriminatory care, or whether the demand will be met by the market. Efforts by the Government to decentralize public systems by empowering local jurisdictions to run hospitals may be a first step toward a more market-oriented solution in the future for Romania.

EU attention to the problem may help as well, but for now Romania appears to be trying to do too much with too few resources and failing to provide care at the appropriate level. While on paper there are no gaps in the public health insurance system, in practice the goal of universal coverage is not being met. End Comment.

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